



Sustainable Finance

Market Performance - Selected Markets for the Week Ended November 27, 2009

Market	Dec 31, 2008	27-Nov-09	YTD Change	YTD % Change
S&P TSX	8,987.70	11,464.41	2,476.71	27.56%
Dow Jones	8,776.39	10,309.92	1,533.53	17.47%
S&P 500	903.25	1,091.49	188.24	20.84%
Nasdaq	1,577.03	2,138.44	561.41	35.60%
Nikkei 225	8,859.56	9,081.52	221.96	2.51%
FTSE 100	4,434.20	5,243.73	809.53	18.26%
Dax	4,810.20	5,685.61	875.41	18.20%
Hang Seng	14,387.48	21,134.50	6,747.02	46.90%
Shanghai	1,820.81	3,096.27	1,275.46	70.05%
DJSI World TR	945.46	1,269.70	324.24	34.29%
DJSI North America TR	92.85	119.63	26.78	28.84%
Jantzi Social Index TR	128.27	169.62	41.35	32.24%
FTSE 4Good Global 100	3,384.13	4,197.82	813.69	24.04%

Selected Rates (Institutional)

Description	Price/Rate Nov 27, 2009
CDN/USF	1.0624
CDN/EURO	1.5896
CDN/CHF	1.0556
CDN/YEN	0.0122
Total CPI -Canada TTM (10/09)	0.10%
Total CPI - USA TTM (10/09)	-0.20%
Total CPI - Euro TTM (10/09)	-0.10%
GOC 1 Yr T-Bill	0.48%
GOC 5 Year	2.35%
GOC 10 Year	3.20%
GOC 30 Year	3.82%
Gold USF/Oz	1,174.20
Oil USF/BBL WTI Cushing Spot	76.05

Week in Review

This week we learned an important lesson in investing. Or should I say the lenders to Dubai World learned an important lesson about investing this week.

That lesson is to read the fine print. Dubai World, although owned by the Government of Dubai, is a separate entity and though many lenders figured there would be government backing

if problems arose (wink, wink), they were surely shocked to learn that no such support was to be offered.

Dubai's oil and gas revenues have been falling for a while now and as part of the grand vision of the current ruler, Mohammed bin Rashid Al Maktoum, Dubai was to re-invent itself as a center for commerce, banking and tourism.

Most people will likely be familiar with the palm shaped island real estate development which can be seen from space. What many people don't know is that there is also a second palm development that has seen no work on it and an earth shaped island development that has not seen any building and is quietly slipping back into the ocean.

The reality is that Dubai has been work-

ing on borrowed time and borrowed money. What is unfortunate is that although the paperwork implied no government guarantee, it is likely that one was implied in some manner shape or form.

Good paper makes good friends but you have to read the paper too. I am sure they will all figure it out but not without taking a major haircut in the process. Anyway, 60 billion is not going to

wreck the world financial system.

The week saw a set back in the markets as a result of the fall out of the Dubai issue.

The Asian markets saw the worst of it with the Shanghai index falling 11.65% and the Hang Seng also falling 9.18%. The Nikkei in Japan was also down by 4.70%.

Europe and North America were differ-

ent stories. In Europe the FTSE 100 in the UK fell only 0.17% and the German Dax actually gained a small 0.47%. So Dubai was really a non even in this part of the world.

North America was mixed. The S&P 500 gained a paltry 0.01% while the Dow Jones fell 0.09%, the NASDAQ lost 0.48% and the TSX Composite in Canada fell 1.28%.

Sustainability/Socially responsible indices were also mixed. The DJSI World was down 0.63% and the Jantzi Social index was off 1.17%. However, the DJSI North American index was up 1.34% while the FTSE 4Good gained 0.02%.

The sideways action continues and I see no change in the week to come.

Sustainable Investing—Why Not?

We recently put together a presentation on sustainable and socially responsible investing. The purpose was to examine the three greatest myths about this investment process.

Lower returns, higher costs, and lack of good investment opportunities are the myths we were looking at. What we found was very interesting.

Not that any of this was unfamiliar to us. During our research over the past three years into sustainable and socially responsible investment (SI/SRI) we uncovered a lot of information that argued against all of these myths.

However, actually

putting it all down in a concise presentation made us focus on the really important information that investors need to make the decision to adopt this form of investing. Here is what we found.

Myth #1: Lack of Good Investments.

The logic underlying this myth is the non-financial screening criteria or environmental, social, and governance screens (ESG criteria) that SI/SRI uses to select investments is too restrictive and eliminates so many companies that the ones that are left are too few and perhaps somehow disadvantaged.

The reality is much different. Globally, when you examine

companies that are considered small capitalization all the way up to the large capitalization companies you have about 11,000 firms to select from. If you were to eliminate 80% of those firms, you are left with 2,200 firms from which to select from.

Interestingly enough when we looked at how many firms a respected ESG screening services follows it was around 2,000 firms.

With most portfolios containing 20 to 100 stocks at most, this leaves plenty of choice for investment managers.

Myth #2: Higher Costs

The common argument in this case is

that SI/SRI methods add extra cost to the investment process and as a result investors will be paying more to have their funds managed.

What we found was that the internet has drastically lowered the costs of performing ESG research. Current ESG research services are priced at \$ 20,000 to \$40,000 per year which is 50% to 66% of the price of an analyst.

Additionally, when you examine the management expense ratios (MER) of funds we found that costs vary. For instance, US based domestic large cap mutual funds average MER was 1.29% while the same SI/SRI group's cost was 1.07%. However, if it was a foreign equity man-

date the SI/SRI average MER was 2.09% and the non SI/SRI MER was 1.59%. So it can vary.

Ultimately, the costs are comparable with non SI/SRI mandates.

Myth #3: Lower Returns

Now this should come as no surprise that the returns are no worse than non SI/SRI returns.

In fact we found that they tracked very closely. Sometimes higher and sometimes lower. But overall almost the same and with no statistical significant differences.

We looked at international, US, and Canadian performance and here is what we found. Since incep-

tion the Dow C Index World returned a total of 11.68% while the MSCI World Index returned 11.79%. Almost no difference over 10 years.

The Dow Jones Sustainability US Index since inception returned a total of minus 12.67% and the

S&P 500 did minus 14.00%. Again almost no difference.

The Canadian result was very similar.

So the question now becomes not why would you do this but why would you not do this?

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